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SUBJECT: MALAYSIAN TRADE MINISTER ON BILATERAL FTA AND APEC

¶1. (SBU) Summary: Malaysia's Minister for Trade Muhyiddin congratulated the Ambassador on the U.S. elections, noted that Malaysia looked forward to continuing efforts to expand trade and investment ties with U.S. and expressed the hope that the U.S. would not shift to a more protectionist trade stance in the face of the financial crisis and global economic downturn. The Ambassador assured Muhyiddin that the U.S. would continue engaging on a wide range of international economic policy challenges. In the bilateral context, the Ambassador told Muhyiddin, the best way for Malaysia to foster stronger trade and investment ties was to send clear signals to Washington conveying its willingness to negotiate a high quality FTA, including tough areas like government procurement and financial services. Muhyiddin said the government was committed to economic reforms in key areas, that change would take time, and that it would be helpful if the U.S. was less ambitious. With regard to APEC, Muhyiddin said Malaysia would be represented by the Deputy Prime Minister at the Leaders Meeting. The trade agenda aside, Muhyiddin said the GOM expected there would be substantive discussion of international efforts to handle the financial crisis and the global economic slowdown. End Summary.

TIME VS AMBITION

¶2. (SBU) Comment: Having a comfortable lead in his own effort to gain UMNO Party support for his move into the Deputy Prime Minister slot next March, Muhyiddin exuded ease and confidence during the meeting. However, he was not as well briefed by his staff on the status of our FTA talks as might have been expected. He was under the impression that preparations were still underway for a round at the end of November, and had to be told that the timing of a future round still depended on an evaluation of intersessional progress of the FTA work plan. More importantly, while Muhyiddin made it clear the Government of Malaysia sees the economic necessity to move on domestic reforms that would make Malaysia more competitive and help clear the path for negotiating all aspects of a comprehensive FTA, its continuing concern over domestic political sensitivities drives its need for a longer timeframe for achieving that goal or alternatively a "less ambitious outcome." Given that Malaysia has such clear difficulties moving away from its imbedded system of protectionist preferences for the Malay majority so important to UMNO hardliners, it was somewhat ironic that the Minister chose to express concern that the new U.S. administration might shift to more protectionist

policy settings in an effort to preserve jobs at home. End
Comment.

WORKING TO KEEP ADDRESS INTERNATIONAL ECONOMIC ISSUES

13. (SBU) Minister Muhyiddin opened his meeting November 5 with Ambassador Keith by extending congratulations on the just concluded U.S. elections. He emphasized that Malaysia looked forward to continuing to work constructively with the next U.S. administration to expand our bilateral trade and investment ties. He also expressed the hope that the current financial crisis and global economic slowdown would not detract from the next administration maintaining an active trade agenda. This was important, he noted, given that the U.S. was Malaysia's largest export market, and Malaysia was already facing a substantial weakening in its exports due to the global economic downturn. Malaysia's GDP growth next year, he added, had already been revised downward to 3.5 percent. The Ambassador made clear to Muhyiddin that the consistent message from the USG was that "we are all in this together" and he assured the minister that the U.S. would continue working closely with other nations to address the policy challenges presented by the financial crisis. He pointed to the upcoming mid-November G-20 meeting in Washington D.C. called for by President Bush as an ongoing example of our active engagement.

CLEAR SIGNALS NEEDED ON FTA

14. (SBU) With regard to developing our bilateral economic relationship, Ambassador Keith said our bilateral FTA

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negotiations provided the most effective means of achieving significant gains for both sides. The Ambassador noted that the last round in July had gone well but that additional work needed to be done to set up the next round. He emphasized to Minister Muhyiddin that the most important thing Malaysia could do in this regard was to send the U.S. administration clear signals that Malaysia was prepared to negotiate all aspects of the FTA, including sectors that have proven difficult for Malaysia such as government procurement and financial services. Recent comments from the DPM on Malaysia's willingness to reform Malaysia's restrictive "New Economic Policy" and to liberalize services were good but the GOM needed to be specific about these plans in terms of content and timing to convince the U.S. government that a quality agreement was achievable.

15. (SBU) Muhyiddin replied that Malaysia was keen to see the FTA concluded and pointed out that the cabinet had already approved a slightly expanded mandate (covering competition policy) and that the cabinet would consider a wider liberalization of and an expanded mandate for services in the coming weeks. The NEP, he cautioned, was still a very politically sensitive topic. He had been forced to publicly elaborate on the DPM's comments, clarifying that the government was only contemplating amendments where Malaysian firms were already competitive. Muhyiddin said he understood that Malaysia's protectionist measures undercut its economy in the long-term and that Foreign Investment Committee restrictions limited access to much-needed foreign investment. Moreover, he said, it was clear to GOM that other countries in the region like Thailand and Vietnam catching up to Malaysia. Nevertheless, as much as we want to move toward liberalization, the government felt it needed to move gradually and carefully. He assured the Ambassador the GOM realized it needed to review existing restrictions and that it was doing so with the intention of removing unnecessary barriers. As an example, Muhyiddin said, pending cabinet approval, next week the government would release a more rapid timetable for liberalization of certain services called for under the ASEAN FTA. Still, he added, it would be helpful if the US was "not too ambitious" in its goals for the FTA. The Ambassador replied that the U.S. wanted an agreement that was good for both sides but the U.S. was

determined to conclude comprehensive "quality" agreements and that would not change.

MULTILATERAL AND REGIONAL DEALS AND APEC

16. (SBU) Noting that the Government of Malaysia was somewhat concerned about protectionist rhetoric used during the U.S. presidential election, Muhyiddin said Malaysia continued to give priority to the Doha round. Although it was locked out of the Green Room at the last WTO Ministerial, Malaysia hoped that parties to the agreement would preserve what was agreed on then and move forward. As for regional trade arrangements, Malaysia's starting point was always ASEAN. As far as Malaysia was concerned, he said, every option, whether ASEAN plus 3, ASEAN plus six, or the FTAAP all were seen from the point of view of ASEAN. Given the uneven levels of development of member countries, Muhyiddin said, flexible timelines and a building block approach were necessary for progress. As for the FTAAP, it was a long-term project, but Malaysia was supportive of the second stage study being done by APEC member economies. Muhyiddin confirmed that he would attend the APEC Trade Ministers meeting in Lima Peru and that Foreign Minister Rais would attend the ministerial. However, Deputy Prime Minister Najib (recently nominated as the next President of UMNO) would stand in for the PM at the Leaders Meeting. Muhyiddin said he expected discussions would focus on the financial crisis and approaches to dealing with the global economic slowdown.

KEITH